

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



48TH DISTRICT AGRICULTURAL ASSOCIATION
SCHOOLS' AGRICULTURE AND NUTRITION PROGRAM
WALNUT, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-046
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

48TH DISTRICT AGRICULTURAL ASSOCIATION
SCHOOLS' AGRICULTURE AND NUTRITION PROGRAM
WALNUT, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Pamela Vallergera

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#08-046

48TH DISTRICT AGRICULTURAL ASSOCIATION
SCHOOLS' AGRICULTURE AND NUTRITION PROGRAM
WALNUT, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Joanne Montgomery, President
Board of Directors
48th DAA, Schools' Agriculture and Nutrition Program
P.O. Box 707
Walnut, California 91788-0707

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 48th District Agricultural Association (DAA), Schools' Agriculture and Nutrition Program, Walnut, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 48th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

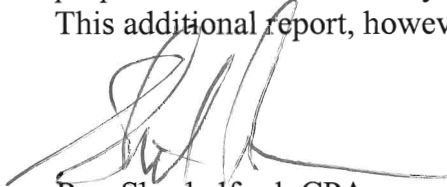
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 48th DAA, Schools' Agriculture and Nutrition Program, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 48th DAA, Schools' Agriculture and Nutrition Program has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-046, on the 48th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 48th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



For Ron Shackelford, CPA
Chief, Audit Office

August 20, 2008

**48TH DISTRICT AGRICULTURAL ASSOCIATION
SCHOOLS' AGRICULTURE AND NUTRITION PROGRAM
WALNUT, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	<u>Account Number</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Cash and Cash Equivalents	111-115	\$ 3,288,639	\$ 3,297,940
Accounts Receivable, Net	131	42,259	48,619
Deferred Charges	143	16,369	5,486
Equipment, Net	193	-	-
Leasehold Improvements, Net	194	403,702	419,850
TOTAL ASSETS		<u>3,750,969</u>	<u>3,771,894</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Liabilities	212-227	8,056	3,400
Deferred Income	228	15,836	46,158
Compensated Absences	245	12,262	6,282
Total Liabilities		<u>36,154</u>	<u>55,840</u>
Net Resources			
Net Resources - Operations	291	303,474	268,197
Net Resources - Capital Assets	291.1	439,856	476,373
Restricted Resources	293	2,971,485	2,971,485
Total Net Resources Available		<u>3,714,815</u>	<u>3,716,055</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 3,750,969</u>	<u>\$ 3,771,894</u>

**48TH DISTRICT AGRICULTURAL ASSOCIATION
SCHOOLS' AGRICULTURE AND NUTRITION PROGRAM
WALNUT, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2007 and 2006

REVENUE	Account Number	2007	2006
State Apportionments	312	\$ 150,000	\$ 150,000
Project Reimbursement	340	43,703	41,085
Miscellaneous Fair Revenue	470	-	4,200
Miscellaneous Non-Fair Revenue	470.05	-	100
Prior Year Adjustments - Revenue	490	4,779	28,184
Other Operating Revenue	495	174,537	166,545
Total Revenue		373,020	390,114
EXPENSES			
Administration	500	216,276	182,471
Maintenance and Operations	520/530	8,455	8,525
Publicity	540	600	600
Miscellaneous Fair	570	14,735	20,845
Premiums	580	30,367	26,083
Exhibits	630	25,055	20,214
Attractions - Fairtime	660	9,625	8,355
Prior Year Adjustments - Expenses	800	9,296	28,456
Depreciation Expense	900	16,148	16,148
Other Operating Expenditures	945	43,703	41,086
Total Expenses		374,259	352,783
RESOURCES			
Net Change - Income / (Loss)		(1,240)	37,331
Unrestricted Resources Available, January 1		744,570	707,239
Restricted Resources, January 1		2,971,485	2,971,485
Resources Available, December 31		\$ 3,714,815	\$ 3,716,055

**48TH DISTRICT AGRICULTURAL ASSOCIATION
SCHOOLS' AGRICULTURE AND NUTRITION PROGRAM
WALNUT, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (1,240)	\$ 37,331
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	6,360	(11,649)
(Increase) Decrease in Deferred Charges	(10,884)	(3,163)
Increase (Decrease) in Deferred Income	(30,322)	34,744
Increase (Decrease) in Accounts Payable & Other Liabilities	4,656	150
Increase (Decrease) in Compensated Absence Liability	5,981	3,364
Total Adjustments	<u>(24,209)</u>	<u>23,445</u>
Net Cash Provided (Used) by Operating Activities	<u>(25,449)</u>	<u>60,776</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Equipment	-	-
(Increase) Decrease In Leasehold Improvements	<u>16,148</u>	<u>16,148</u>
Net Cash Provided (Used) by Investing Activities	<u>16,148</u>	<u>16,148</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(9,300)	76,924
Cash at Beginning of Year	3,297,940	3,221,016
CASH - END OF YEAR	<u><u>\$ 3,288,639</u></u>	<u><u>\$ 3,297,940</u></u>

**48TH DISTRICT AGRICULTURAL ASSOCIATION
SCHOOLS' AGRICULTURE AND NUTRITION PROGRAM
WALNUT, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 48th District Agricultural Association (DAA) was converted from a traditional fair in 1989 to a hands-on year round educational curriculum on agricultural programs. In April or May of each year, the Schools' Agriculture and Nutrition Fair is held at the Pomona Fairplex in Pomona, California. Displays and exhibits are researched, designed and built by youth in grades pre-K-12. Every Fair display and exhibit has an agricultural theme. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents – The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Leasehold improvements and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 8.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 200	\$ 200
Cash in Bank – Operating	21,870	107,480
Cash in Bank – Premium	5,342	12,616
Cash in Bank – Time Deposits	<u>3,261,227</u>	<u>3,177,644</u>
Total Cash and Cash Equivalents	<u>\$ 3,288,639</u>	<u>\$ 3,297,940</u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable – Trade	\$ 42,259	\$ 48,619
Allowance for Doubtful Accounts	<u>-</u>	<u>-</u>
Accounts Receivable – Net	<u>\$ 42,259</u>	<u>\$ 48,619</u>

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Leasehold Improvements	\$ 484,442	\$ 484,442
Less: Accumulated Depreciation	<u>(80,740)</u>	<u>(64,592)</u>
Leasehold Improvements – Net	<u>\$ 403,702</u>	<u>\$ 419,850</u>

Equipment	\$ 18,698	\$ 18,698
Less: Accumulated Depreciation	<u>(18,698)</u>	<u>(18,698)</u>
Equipment – Net	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 6 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

NOTE 7

LITIGATION

During 2007, the 48th DAA was involved in legal actions arising in the normal conduct of its business, none of which, in the opinion of management, will have a material effect on its financial position or results of operations.

**48TH DISTRICT AGRICULTURAL ASSOCIATION
SCHOOLS' AGRICULTURE AND NUTRITION PROGRAM
WALNUT, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 48th DAA Board of Directors
1	Chief Executive Officer, 48th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



48TH DISTRICT AGRICULTURAL ASSOCIATION
SCHOOLS' AGRICULTURE AND NUTRITION PROGRAM
WALNUT, CALIFORNIA

MANAGEMENT REPORT #08-046

YEAR ENDED DECEMBER 31, 2007

48TH DISTRICT AGRICULTURAL ASSOCIATION
SCHOOLS' AGRICULTURE AND NUTRITION PROGRAM
WALNUT, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Pamela Vallerger

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#08-046

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Joanne Montgomery, President
Board of Directors
48th DAA, Schools' Agriculture and Nutrition Program
PO Box 707
Walnut, California 91788-0707

In planning and performing our audit of the financial statements of the 48 District Agricultural Association (DAA), Schools' Agriculture and Nutrition Program, Walnut, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Schools' Agriculture and Nutrition Program with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 48th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 48th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 48th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 48th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 48th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 48th DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Fair's operations: sponsorship revenue, delegated purchase authority, and standard agreements. We have provided six recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 48th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

SPONSORSHIP REVENUE

The Fair lacked a proper audit trail for determining whether it had received all the revenues due from the organization that obtains sponsorship donations on the Fair's behalf. The Fair and California Agricultural Literacy Fair Foundation did not have a written agreement delineating the revenues and expenditures shared between them during 2007. To establish a proper audit trail showing to whom revenue is owed and who is responsible for various expenditures, the Fair and Foundation should document the terms of the agreement between the two entities.

Additionally, the Fair should obtain and review the support for revenues reported by the Foundation as due to the Fair. Documented support for revenues generated at the events run in tandem by the two organizations should be maintained by the Fair to substantiate the amount of revenue the Fair recognizes from these events. Additional revenues obtained by the Foundation on behalf of the Fair should have adequate support as to the amount received by the Foundation and forwarded to the Fair.

Furthermore, Food and Agriculture Code Section 4051.1(a) states "in accordance with procedures determined by the Board, the Board may enter into agreements to secure donations..." The Board should determine and document the procedures it uses to secure donations, including delegation of authority to the entity responsible, and defining terms, conditions, and compensation, if any, involved in the securing of the Fair's sponsorship donations. For example, if the Foundation intends to charge administrative or other fees for the support it provides to the Fair during events, then the agreement with the Foundation should specify what the fees are for and what amounts are to be paid; the Fair should require the Foundation to provide supporting documentation for the amounts as justification for the expense being assumed by the Fair rather than the Foundation.

Recommendations

- 1. The Fair should establish an agreement with its Foundation clearly stating the terms of the arrangement between the two entities with regards to revenues from sponsorship donations.*
- 2. The Fair Board should establish and document procedures for securing sponsorship donations as per Food and Agriculture Code, Section 4051.1(a).*
- 3. As part of the agreement with the Foundation, the Fair should delineate which expenses, if any, are to be reimbursed to the Fair from the Foundation.*

DELEGATED PURCHASE AUTHORITY

The Fair did not have a delegated purchase authority for 2007, yet made purchases in excess of \$100. Per the Purchasing Authority Manual (PAM), Section 1.1.7 and Public Contract Code, Section 10308, purchases over \$100 for non-information technology and purchases of

technology goods of any amount may not be made without the proper delegated authority. This was a prior year finding.

Additionally, the Fair did not prepare the Standard 65 Purchase Order form for all expenditures greater than \$100 as required by Department of General Services (DGS) purchasing guidelines. The Fair did not track its purchases or maintain a log as detailed by the Accounting Procedures Manual (APM), Section III, 2.11 and 2.12.

Recommendations

4. *The Fair should take the necessary steps to obtain delegated purchase authority as soon as possible. The Fair should resubmit an application and work with DGS to address any deficiencies that must be remedied before the delegation of purchase authority to the Fair will be approved. Until delegated purchase authority is approved, the Fair should comply with purchasing regulations and refrain from making purchases without the proper delegated authority to do so.*
5. *As the Fair reapplies for delegated purchase authority, the Fair must establish a system that meets DGS requirements for proper internal controls over purchasing. Per DGS guidelines as outlined by the APM, the Fair should track its purchases on a detailed log and prepare Standard 65 purchase orders for all purchases greater than \$100.*

STANDARD AGREEMENTS

The Fair did not always create contracts for personal services rendered to the Fair. Our office noted four instances of payments to independent contractors that did not have standard agreements executed for them. Per the APM, Section III, 1.3, Standard Agreements should be prepared for all personal services rendered to the Fair. A contract helps ensure a clearer understanding of the nature of the relationship and obligations between the Fair and its contractors, and provides acknowledgement by the independent contractor of the standard terms and conditions required when doing business with a State of California.

Recommendations

6. *The Fair should ensure it prepares standard contracts for all personal services as per APM, Section III, 1.3. The Fair should maintain signed agreements for all personal services rendered to the Fair, ensuring that independent contractors who perform personal services have contractually agreed to specific terms as to the cost and nature of the services to be provided, as well as acknowledged the specific requirements incorporated into standard agreements as a part of doing business with a State entity.*

NON-REPORTABLE CONDITIONS

ACCOUNTS PAYABLES

The Fair had approximately \$1,996 in invoices related to 2008 expenses that had been prepaid during December 2007, which were denoted on the Fair's Statement of Operations (STOP) as debit balance payables rather than prepaid expenses. As a result of this accounting error, both assets and liabilities were understated at year-end 2007 by this amount.

Also, the Fair did not fully accrue all its liabilities at year-end. Our office noted an unrecorded invoice of \$879 relating to a 2007 expense that was subsequently paid in 2008. The accrual basis of accounting requires the recognition of expenses within the period incurred. If expenses have been incurred but not yet invoiced, an effort should be made to reasonably estimate and accrue the liability for the amount owed. This should be done prior to closing the accounting records and preparing the annual STOP. As a result, the Fair's liabilities were further understated by \$879.

Recommendation

The Fair should ensure its accounts payable at year-end includes all known payables. To ensure the Fair's account balances are fairly presented, amounts that have been prepaid by year-end for expenditures to be recognized in the following year should be recorded as deferred or prepaid charges.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



Mission

In cooperation with the California agriculture industry and educational institutions, we provide primarily elementary and secondary school teachers and students an understanding of and appreciation for the role of agriculture and nutrition in an urban and suburban society.

SCHOOLS' AGRICULTURE AND NUTRITION PROGRAM

State of California • 48th District Agricultural Association

October 28, 2008

Mr. Ron Shackelford, CPA
Audit Chief
California Department of Food and Agriculture
Audit Office
1220 N Street, Room 344
Sacramento, CA 95814

Dear Mr. Shackelford:

The following is the 48th District Agricultural Association's response to the preliminary draft of the Management Report #08-046 for year ended December 31, 2007. We are in acceptance of all your recommendations and will implement them as described below.

Sponsorship Revenue

Recommendation #1, Page 3

The Fair should establish an agreement with its Foundation clearly stating the terms of the arrangement between the two entities with regards to revenues from sponsorship donations.

How recommendation will be implemented:

The Fair will maintain adequate separation from its Foundation. Transactions between the Fair and the Foundation will not be any different than the Fair and another third party. For each joint event, the Fair will establish an agreement with its Foundation clearly stating the terms of the arrangement between the two entities with regards to revenues from sponsorship donations. The Fair will implement a Standard 210 when paying the Foundation for a service. The Fair will implement a Rental Agreement if the Foundation is renting space on the Fair property in order to create revenue, whether shared or otherwise. Any financial settlement would be documented in advance of the event.

Recommendation #2, Page 3

The Fair Board should establish and document procedures for securing sponsorship donations as per Food and Agriculture Code, Section 4051.1(a).

Located on the campus of
Mt. San Antonio College

(Continued)

How recommendation will be implemented:

The Fair Board will establish and document procedures for securing sponsorship donations as per Food and Agriculture Code, Section 4051.1(a).

Recommendation #3, Page 3

As part of the agreement with the Foundation, the Fair should delineate which expenses, if any, are to be reimbursed to the Fair from the Foundation.

How recommendation will be implemented:

As part of agreements with the Foundation, the Fair will delineate which expenses, if any, are to be reimbursed to the Fair from the Foundation.

Delegated Purchase Authority

Recommendation #4, page 4

The Fair should take the necessary steps to obtain delegated purchase authority as soon as possible. The Fair should resubmit an application and work with DGS to address any deficiencies that must be remedied before the delegation of purchase authority to the Fair will be approved. Until delegated purchase authority is approved, the Fair should comply with purchasing regulations and refrain from making purchases without delegated authority to do so.

How recommendation will be implemented:

DGS approved Delegated Purchase Authority for the Fair on October 2, 2008. Prior to approval the Fair complied with purchasing regulations and refrained from making purchases over \$100.

Recommendation #5, page 4

As the Fair reapplies for delegated purchase authority, the Fair must establish a system that meets DGS requirements for proper internal controls over purchasing. Per DGS guidelines as outlined by the APM, the Fair should track its purchases on a detailed log and prepare Standard 65 purchase orders for all purchases greater than \$100.

How recommendation will be implemented:

The Fair has established a system that meets DGS requirements for proper internal controls over purchasing. The Fair will track purchases on a detailed log and prepare Standard 65 purchase orders for all purchases greater than \$100

Standard Agreements

Recommendation #6, page 4

The Fair should ensure it prepares standard contracts for all personal services as per APM, Section III, 1.3. The Fair should maintain signed agreements for all personal services rendered to the Fair, ensuring that independent contractors who perform personal services have contractually agreed to specific terms as to the cost and nature of the services to be provided, as well as acknowledged the specific requirements incorporated into standard agreements as a part of doing business with a State entity.

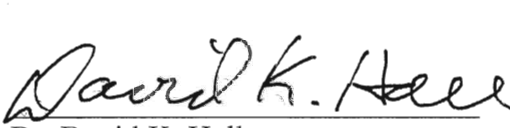

(Continued)

How recommendation will be implemented:

The Fair will ensure it prepares standard contracts for all personal services as per APM, Section III, 1.3. The Fair will maintain signed agreements for all personal services rendered to the Fair, ensuring that independent contractors who perform personal services have contractually agreed to specific terms as to the cost and nature of the services to be provided, as well as acknowledged the specific requirements incorporated into standard agreements as a part of doing business with a State entity.

We appreciate your comments and recommendations. If you have any questions, please contact us.

Sincerely,

	
Dr. David K. Hall	Louise B. Romano
Treasurer, Board of Directors	Chief Executive Officer
48th District Agricultural Assoc.	48th District Agricultural Assoc.

cc: Information Copy: Division of Fairs and Expositions


C DFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 48th DAA, Schools' Agriculture and Nutrition Program, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between August 11, 2008 and August 20, 2008. My staff met with management on August 20, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.


For Ron Shackelford, CPA
Chief, Audit Office

August 20, 2008

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